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Minimum Wage and Food Prices: An Analysis of Price Pass-Through Effects

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"Minimum Wage and Food
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Will increasing the minimum

wage increase food prices as well? If it does, assessing the result becomes challenging to policy-makers because lower income households, who presumably benefit from the higher minimum wage,

would spend a larger share of their earnings on food. At best, if a minimum wage increase significantly raises the price of food a program intended to benefit lower income households reduces its net benefit by raising household costs. At worst, the benefit is illusory because higher household costs wipe out household income.

This study simulates the effect of a \$0.50 rise in the minimum wage on production costs. If these higher production costs are entirely passed on to consumers, the model predicts an increase in food prices by less than 0.5 percent for most of the foods at foodstores, and by slightly less than 1 percent at eating and drinking places. What accounts for these increases? First, labor's share of the cost of food production was 13.5 percent for food and kindred products and 34 percent for eating and drinking establishments. Moreover, the share of food industry workers in the minimum wage category was less than 10 percent for most of the food and kindred products and around 23 percent in the eating and drinking places industry. It is unlikely that higher food costs would fully offset the wage gains of minimum wage workers.

